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June 15, 2006

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JUN 15 2006

PUBLIC SERVICE
COMMISSION

HAND DELIVERED

Ms. Elizabeth O'Donnell, Executive Director
Kentucky Public Service Commission
P.O. Box 615
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Re: In the Matter of:

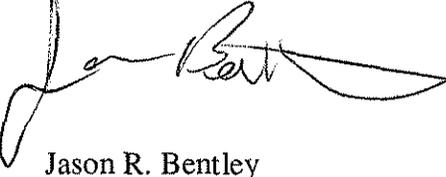
**CONSIDERATION OF THE REQUIREMENTS OF THE FEDERAL ENERGY POLICY ACT
OF 2005 REGARDING TIME-BASED METERING, DEMAND RESPONSE AND
INTERCONNECTION SERVICE, CASE NO. 2006-00045**

Dear Ms. O'Donnell:

Please find enclosed and accept for filing in the above captioned-case the original and ten (10) copies of the testimony of Thomas Welch on behalf of PJM Interconnection, L.L.C.

By copy of this letter, all parties listed on the attached Certificate of Service have been served. Please contact me if you have any questions.

Sincerely,



Jason R. Bentley

cc: Service List

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JUN 15 2006

PUBLIC SERVICE
COMMISSION

TESTIMONY
THOMAS WELCH

RECEIVED

COMMONWEALTH OF KENTUCKY

JUN 15 2006

BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

CONSIDERATION OF THE)
REQUIREMENTS OF THE FEDERAL)
ENERGY POLICY ACT OF 2005)
REGARDING TIME-BASED METERING,)
DEMAND RESPONSE AND)
INTERCONNECTION SERVICE)

CASE NO.
2006-00045

TESTIMONY OF THOMAS WELCH ON BEHALF OF
PJM INTERCONNECTION L.L.C.

Q. Please state your name and business address.

A. My name is Thomas Welch, and my business address is PJM Interconnection L.L.C.,
955 Jefferson Avenue, Norristown, Pennsylvania, 19403-2497.

Q. What is your current position with PJM Interconnection L.L.C. ("PJM")?

A. I am PJM's Vice President for External Affairs.

I. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I am pleased to provide comments to the Kentucky Public Service Commission
("Commission") on behalf of PJM in the matter of the Commission's consideration of
requirements of Federal Energy Policy Act of 2005 (EPAct2005) Subtitle E Sections
1252 and 1254 regarding time-based metering, demand response, and interconnection
service. One Section 1252 standard would require each electric utility to offer each
customer class a time-based rate schedule where the rate charged varies during different

time periods to reflect the variance in the utility's cost of service. A second Section 1252 standard would require each utility to provide each customer requesting a time-based rate with a meter capable of enabling the utility and the customer to offer and receive such a rate. The Section 1254 standard would require each electric utility to make interconnection service available to any customer seeking to connect an on-site generating facility on the customer's premises to local distribution facilities; the standard requires that such service be offered based on IEEE Standard 1547, which reflects current best practices of interconnection for distributed generation.

Q. What are PJM's responsibilities?

A. PJM is the regional transmission organization approved by the Federal Energy Regulatory Commission (FERC) to operate the transmission grid in all or parts of 13 states including Kentucky, and in the District of Columbia. PJM is responsible for assuring the safe and reliable operation of the transmission system and facilitating the reliable supply of energy to meet the demand of wholesale electricity customers in the PJM region. In carrying out these responsibilities, PJM operates an Energy Market which provides wholesale buyers and sellers of energy with both real-time and forward pricing information, enables the efficient interconnection of generation facilities to the transmission system, and provides for the participation of interconnected generators in the PJM Energy Market.

Q. What is PJM's interest in this proceeding?

A. PJM is interested in providing the Commission with information about the benefits that demand side response (DSR) brings to the functionality of the wholesale electricity

market. My testimony on behalf of PJM also addresses the steps we are taking to facilitate wholesale market participation for those generators interconnected at distribution-level voltages, and clarifies the shift in responsibilities of state utility commissions and PJM regarding distribution-level interconnection which results from a FERC Order Rejecting Filings issued in Docket Nos. ER06-407-000 and ER06-408-000 on February 22, 2006.

II. BENEFITS OF INCREASE DEMAND SIDE RESPONSE PARTICIPATION IN WHOLESALE ELECTRICITY MARKETS

Q. What are the benefits of increased demand side response participation in wholesale electricity markets?

A. In effectively functioning markets, both supply sources and demand sources have the freedom to determine their degree of participation. Suppliers are able to choose when and at what price to offer products and services, subject to market rules designed to prevent the undue exercise of market power. Customers are able to choose whether to purchase and the quantity of products and services to purchase based on their assessment of the relative price and value of those products and services. It is widely understood that demand side resource participation in wholesale electricity markets is underdeveloped, and that wholesale electricity markets work better when a significant level of potential demand-side response is available in the market. These conditions prevail when customers are in a position to make informed decisions about their consumption of electricity.

Q. What steps has PJM taken to increase demand side participation in its markets?

A. PJM is committed to the establishment of a fully functional demand side for its markets including but not limited to Energy, Capacity, Synchronized Reserve and Regulation markets. FERC approved in early 2006 market initiatives for Demand Resources that made Economic Load Response and Emergency Load Response permanent features of the PJM market and provided new opportunities for Demand Resources in the Synchronized Reserve and Regulation markets. Previously PJM established two successful wholesale market demand side programs – the PJM Economic Load-Response Program and the PJM Emergency Load-Response Program -- as components of a transition to the full integration of the demand side in PJM's markets. PJM also established a non-hourly, metered pilot program to extend participation in the demand side of the market to smaller customers lacking hourly meters.

Q. To what extent has load participated in the PJM Economic Load-Response Program?

A. As of November 30, 2005, there were 2,210.4 MW active in the PJM Economic Load-Response Program, and participants reduced their load in the 11-month period prior to that date by 113,393 MWh in return for average payments of \$106 per MWh for doing so. Approximately 66 percent of the MWh reductions resulted from customers with access to real-time pricing information for PJM's Energy Market. During the 11-month period ending November 30, 2005, the maximum hourly load reduction attributable to the Economic Load-Response Program was 226 MW.

Q. What has been the impact on market prices of load participation in the PJM Economic Load-Response program, and what would the impact be of increased participation?

A. PJM's independent Market Monitoring Unit estimates that the price impact of the 226 MW reduction is approximately \$1 per MWh, and projects that a reduction of 1000 MW would have resulted in an approximate \$4 per MW LMP decrease.

III. RESPECTIVE RESPONSIBILITIES OF PJM AND STATE COMMISSION FOR DISTRIBUTION-LEVEL INTERCONNECTION

Q. Please describe the impact of FERC's Order in Docket No. ER06-407-000 and ER06-408-000 on the respective duties and responsibilities of PJM and state authorities regarding distribution-level interconnections.

A. On February 22, 2006, FERC issued an Order in Docket Nos. ER06-407-000 and ER06-408-000 ("GSG Order") which clarified the respective duties and responsibilities of PJM and state authorities regarding distribution-level interconnections. In that Order at Paragraph 14, FERC observed that it had determined previously in Order No. 2003 that it does not have jurisdiction over an interconnection where the interconnection customer seeks to interconnect to a "local distribution facility" that is unavailable for jurisdictional transmission service under a FERC-approved OATT at the time an interconnection request is made. The GSG Order indicates that FERC can assert jurisdiction over interconnections to local distribution facilities, only when there is a pre-existing interconnection and a wholesale transaction over these local distribution facilities prior to the new interconnection request being made.

Q. What impact does the GSG Order have on PJM's practice to review interconnection service agreements?

A. Prior to the GSG Order, it had been PJM's practice to review all interconnection service agreements (ISAs) involving interconnection to distribution systems. Subsequent to the issuance of FERC Order No. 2003, PJM determined to maintain the status quo in its practices and continued to review all interconnections for distribution systems. The GSG Order has clearly indicated that PJM does not have the authority to continue this practice.

Q. What will PJM's change of practice mean for distribution-level interconnection applications in PJM's interconnection queues?

A. The majority of distribution-level interconnection applications in PJM's interconnection queues are for interconnections to systems with no pre-existing interconnection. As a result, those interconnections are not subject to FERC jurisdiction, but rather to state jurisdiction. Transmission owners and generation developers will be looking to state commissions to facilitate the interconnection aspects of such projects, and state commissions will need to manage any disputes between developers and transmission or distribution system owners over the state-jurisdictional interconnection. PJM will not be a signatory to any interconnection agreements authorized by state commissions.

Q. What role, if any, will PJM play in managing the transition from PJM's previous practice of reviewing all distribution-level interconnections to the practice required pursuant to the GSG Order?

A. PJM is very willing to work as a consultant with state commissions and the parties involved in state level proceedings to assist in managing the transition from PJM's

previous practice of reviewing all distribution-level interconnections to the practice required pursuant to the GSG Order.

Q. What role will PJM play in facilitating distribution-level interconnections in the event the interconnected entities intend to participate in wholesale market sales?

A. If such entities subject to state jurisdiction intend to participate in wholesale market sales, PJM will continue to maintain its jurisdiction over the wholesale sales portion of an interconnection to a local distribution facility. To do so, PJM is developing a Wholesale Market Participation Agreement (WMPA) for PJM, the respective transmission owner, and the generation developer. To a large extent, the WMPA will parallel the wholesale sales aspects of PJM's Interconnection Service Agreement. PJM is advising developers intending to participate in wholesale market sales to enter PJM's interconnection queue so that PJM can study the transmission system impacts of the proposed interconnection. While the WMPA will contain provisions for network and local upgrades, it will not contain provisions for attachment facilities, which FERC has clarified are state-jurisdictional.

IV. PJM'S POSITION ON THE COMMISSION'S ADOPTION OF EPACKT2005 SMART METERING AND DISTRIBUTION-LEVEL INTERCONNECTION STANDARDS

Q. Is PJM asking that the Commission adopt the EPACKT2005 Section 1252 and 1254 standards on smart metering and distribution-level interconnection?

A. No. PJM's perspective is informed by its focus on maintaining and enhancing transmission system reliability and improving PJM's energy market performance by increasing demand side resource participation in the market, and by facilitating the

deployment of distributed generation resources. In drafting its comments, PJM has not considered nor represented other perspectives founded on other legitimate interests – for example, the cost-effectiveness of requiring the mass deployment of smart meters, or the revenue impacts on load serving entities of their customers' direct participation in PJM's demand side response programs. For that reason, PJM expresses no opinion whether, on balance, the Commission should adopt these or any other proposed standards. PJM does, however, encourage the Commission to explore policies and standards that, properly tailored to Kentucky's circumstances, can bring the benefits of efficient demand side response and distributed resources to consumers. PJM believes that its wholesale platform provides a sound starting point for such exploration. PJM stands ready to provide any additional information on the wholesale market, including the operation of demand side resources within that market, which the Commission may require.

Q. Does this conclude your testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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CONSIDERATION OF THE)	
REQUIREMENTS OF THE FEDERAL)	
ENERGY POLICY ACT OF 2005)	CASE NO.
REGARDING TIME-BASED METERING,)	2006-00045
DEMAND RESPONSE AND)	
INTERCONNECTION SERVICE)	

TESTIMONY OF THOMAS WELCH
ON BEHALF OF
PJM INTERCONNECTION L.L.C.

AFFIDAVIT

COMMONWEALTH OF PENNSYLVANIA)
)
 COUNTY OF MONTGOMERY)

Thomas L. Welch, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

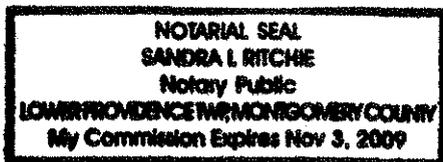
Thomas L. Welch

Subscribed and sworn before me on this 14th day of June, 2006.

Sandra L. Ritchie

 Notary Public

My Commission expires: NOV. 3, 2009



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COMMONWEALTH OF KENTUCKY

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INTERCONNECTION SERVICE)

CASE NO.
2006-00045

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been sent by U.S. First Class mail to all parties of record in the above captioned-case on this 15th day of June, 2006:

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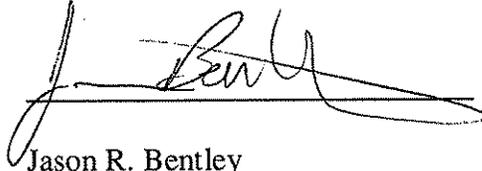
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Respectfully Submitted,

By:

A handwritten signature in black ink, appearing to read "J. Bentley", written over a horizontal line.

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Counsel for PJM Interconnection